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SUBJECT: MEXICAN ECONOMIC RECESSION DEEPENS; BUSINESS COMPLAINS
ABOUT LACK OF EFFECTIVE STIMULUS MEASURES

REF: MONTERREY 176

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¶1. (U) Summary. Mexico's growth rate showed a sharp 8.2% annualized decline in the first quarter of 2009, indicating a deeper recession than expected. Several local economists now project that Mexico's economy will decline 6-7% in 2009. Credit remains tight and confidence is still low, as employment statistics indicate that the recession is rolling south. Post contacts think that the Mexican federal government has done little to stimulate a recovery, as spending and employment assistance has been strangled by bureaucratic red tape. End Summary.

Recession Worse than Expected as it Rolls South

¶2. (U) Monterrey economists had expected that the Mexican economy would contract around 7% in the first quarter of 2009, so the 8.2% annualized decline was much worse than expected. Prominent local economist Salvador Kalifa expects the second quarter to be just as bad, as the economy slowdown will reflect the H1N1 flu closures. He thinks that Mexico will have a 3-5% fall in Q3 and a flat Q4, resulting in a 6-7% GDP decline in ¶2009. The American Chamber of Commerce economic forecast has also slipped, from an early May forecast that Mexico's economy would fall 4.1% in 2009 to its current estimate of a 6.2% drop for the year. Moreover, business confidence is low. The Bank of Mexico survey of private economists found that their confidence levels continue to decline, mirroring low business confidence in the United States. A good indication of the cautious attitude is an anecdotal report of falling business investment. Carlos Mortera, general manager for the Association of Manufacturing Technology (AMT), reported that in several cases companies' board of directors have approved capital expenditures, but the company decided not to spend but rather to retain its capital. In another indicator, AMT projects that capital goods imports, after rising close to 20% in 2008, will fall more than 25% in 2009.

¶3. (U) The recession also appears to be rolling south. As reported in reftel, the border states of Chihuahua and Baja California, the most heavily dependent on maquila exports to the United States, were hit first and hardest, followed by Nuevo Leon near the border, while there was much less impact in the center and Southern parts of Mexico. Agustin Del Rio, Nuevo Leon delegate of the Bank of Mexico, provided econoffs

employment statistics showing the recession moving south. In one quarter employment had fallen substantially in Northern Mexico, but it was holding steady or increasing in the South. However, in the following quarter the recession had spread south with most areas of Mexico showing employment declines. Northern Mexico was hit first due to its dependence on U.S. exports, but now the recession has spread throughout Mexico due to falling consumption spending, low confidence levels, and tight credit.

¶4. (U) Although business credit markets have slightly loosened, business leaders and economists agree that credit is still hard to get. Mortera of the Association for Manufacturing Technology thought that credit was becoming increasingly available, but credit lines were still tight and expensive, and little credit was available for smaller companies. Monterrey TEC Business professor Alejandro Ibarra continues to see illiquidity in the market, as banks are not lending despite borrower demand, and 65% of companies still depend on credit from their suppliers for working capital. Bank of Mexico delegate del Rio agreed that credit remains very tight, expensive, and not available to some (especially smaller) companies.

¶5. (U) The one bright spot for Mexico is that inflation fears are abating. Inflation had increased to 6.5% in 2008, more than double the Bank of Mexico's 3% target. Several post contacts were concerned that the depreciation of the Mexican peso in the last six months would spur inflation as a result of higher prices for imported goods such as food. However, most forecasts are similar to that of the Amcham, which projects 4.4% inflation in 2009 and 3.8% in 2010. Although there still are inflationary pressures due to the increased cost of imports, the recession has dampened demand and prevented producers and

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retailers from passing along price increases. In addition, the worldwide drop in most commodity prices has also reduced inflationary pressures. Bank of Mexico delegate del Rio added that their surveys demonstrate that inflation expectations remain low. Economist Kalifa dissents, and he expects inflation to remain at the 6% level for several years before fading.

GOM Anti-Recession Measures are Ineffective

¶6. (SBU) Post's government, academic and private sector contacts all agree that the federal government's anti recession programs have not worked. Monterrey TEC Professor Ibarra criticized the government's infrastructure programs, stating that bureaucracy and red tape have meant that very little stimulus money has actually been spent. John Castany, President of the Nuevo Leon Maquila Association, also thought that overly restrictive rules on government programs to preserve employment had resulted in little participation by the private sector, so few jobs were saved. However, Castany praised programs to continue social services to laid off workers, and a program to allow people to pull money from retirement accounts to pay their government housing mortgages. In general, though, Bank of Mexico delegate del Rio acknowledged that few of the GOM anti-recession measures have worked.

¶7. (U) Comment. The first quarter economic decline was worse than expected, indicating that Mexico is in a deep economic trough. Post reported in reftel that the pace of job losses in Nuevo Leon had slowed, which could indicate that Nuevo Leon (and border areas) are close to the bottom as the economic

recession rolls south. Post contacts expect a very slow
economic recovery in Nuevo Leon starting in 2010. End Comment.
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